MEMORANDUM FOR
THE CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Washington Monthly Report

Six weeks into the new fiscal year, the President and Congressional leaders still are negotiating over appropriations measures that are necessary to keep the Federal government operating. As this Monthly Report "goes to press", the Congressional negotiators are hoping to wrap up the appropriations measures and adjourn until January.

A Congressional session that began with ambitious plans for broad-scale reform of Social Security and Medicare and significant tax cuts has now devolved down to such parochial matters as Sen. Robert Byrd's (D-W.Va.) insistence that West Virginia coal companies should continue to be able to blow up mountains with dynamite and dump the resulting refuse in streams and Senate Finance Committee Chairman Bill Roth's (R-Del.) quest for a new tax incentive to turn poultry waste into pellets of fuel. The race is now on for Congress to get out of town, and legislative initiatives are falling by the wayside right and left.

Looking ahead to next year, the picture is unclear about what to expect in the way of major legislative initiatives. The conventional wisdom would say that the partisan politics of a Presidential campaign and the fight for control of Congress would stifle the ability to pass far-ranging legislation such as comprehensive Social Security reform. Congress and the Administration will have ended this year's Congressional session on a highly partisan note with the various budget battles. There is little from this year's session in the way of bipartisan comity, trust, or a sense of shared accomplishment to serve as a foundation for taking up a highly charged and controversial issue such as Social Security solvency or Medicare reform. At the same time, there are the wild cards. President Clinton and several key House committee chairmen, including House Ways and Means Chairman Bill Archer (R.Tex.), will be entering the last year of their terms and giving renewed attention to the legacy of accomplishment they leave for the history books. Senate Finance Chairman Roth, in the fight of his political life for re-election, will be anxious to demonstrate that at age 78 he can still get big things done.

Elk Hills Compensation

The Interior Appropriations legislation that serves as the vehicle for the $36 million appropriation of Elk Hills compensation for California and its teachers became bogged down over Congressional efforts to include so-called environmental "riders" that use an appropriations bill to dictate a substantive policy result, as well as a dispute over the President's proposal to make significant purchases of private lands for environmental protection purposes.

In the face of a threatened Presidential veto of the Interior Appropriations measure over the disputes in these areas, Congress adopted the Interior Appropriations legislation containing the Elk Hills compensation, but then held off sending the measure to the President in an effort to negotiate these outstanding issues.

At this late stage in the legislative process, things can happen in the middle of the night. Accordingly, we are keeping a close eye on these final negotiations between the White House and Congressional leaders to ensure that the Elk Hills provision is included in the final agreement on Interior Appropriations.

Mandatory Social Security

The Social Security reform issue is now done for the year. With one last round of partisan jousting between President Clinton and House Ways and Means Chairman Archer, time ran out for any further discussion of the issue in this Congressional session.

In an effort to have the last word on Social Security reform in the final days of the Congressional session, President Clinton sent a slimmed-down Social Security solvency proposal to Capitol Hill. Gone were his controversial proposals for direct government investment of Social Security trust funds in the equities market and to create Universal Savings Accounts funded by tax credits for all Americans. Instead, the President's parting proposal would simply direct that all of the Social Security surplus and a portion of the non-Social Security surplus be used to pay down, and ultimately pay off completely by the year 2015, all Federal government debt held by the public. In return for relinquishing these surpluses, the Social Security trust fund would be given special Treasury securities representing the amount of the surpluses relinquished plus the amount of interest "savings" realized by paying off the publicly-held Federal debt. So crediting the Social Security trust fund with these interest "savings" was said by the Administration to extend the trust fund's solvency by an additional 16 years to the year 2050. In essence, the current Federal government's debt would now be held by the Social Security trust fund, rather than the public.

Congressional Republicans promptly criticized the proposal for failing to provide structural reforms, failing to extend the trust fund's solvency for the full 75-year benchmark of solvency used by the Social Security Administration, creating a new entitlement from general fund Federal revenues, and relying in effect on cash moving in a circle with Federal debt held by the Social Security trust fund simply replacing Federal debt held by the public.

At the same time, House Ways and Means Chairman Archer's proposal calling for use of private accounts for workers to invest in the equities and bond markets never seemed to capture the imaginations of the GOP leadership and rank-and-file, in part because by dedicating Federal non-Social Security surpluses as the funding source Chairman Archer's proposal too would create a new entitlement out of general fund revenues.

In the face of deep partisan differences – particularly between the White House and House Ways and Means Chairman Archer – serious efforts never materialized to seek a compromise proposal. Instead, Social Security was relegated to the status of a mere symbol for the two sides. "Dipping into the Social Security surplus" became a political anathema, even though government budget experts admit that no new threat was posed to the Social Security trust fund which had no use for the surplus cash and merely transferred such cash to the general fund (to be available for the funding of general government operations) in exchange for Treasury debt.

Each side sought to saddle the other with the label of "raiding Social Security" through increased general government spending above the budget caps to a level that absorbed part of the Social Security surplus. In the sort of irony that seems to attend political life, the Congressional Republicans accused the President of the very "raid" that they themselves already had undertaken but masked through a series of accounting gimmicks that included designating next year's decennial census as "emergency" spending to be ignored for budget purposes. Not to be outdone, President Clinton launched the same attack on the Congressional GOP, even as his negotiators pushed on Capitol Hill for billions more in additional spending above the budget caps.

So where is the Social Security reform issue now? Will the now-hollow symbol of "protecting Social Security" once again become imbued with the substance of true structural reform? Will the two sides be able to bridge the partisan divide in a year that anticipates a hard-fought campaign for control of the White House and the House? No one knows the answer right now.

What does this mean for the issue of mandatory Social Security coverage for State and local workers? CalSTRS's various efforts have successfully delivered to the California Congressional delegation the message of adverse impact on California schools, school districts, and teachers, and a number of other non-Social Security States have done likewise. Now is the time to be reinforcing that message at the grassroots level when Members of Congress are home in their districts, campaigning by both parties on themes of education, and particularly attentive to their constituents' views in this election year. Local cost impact on school districts is a compelling message for a Member of Congress.

When Congress returns next year, our objective will be the same: to keep mandatory State and local coverage out of every major Social Security reform package that surfaces on Capitol Hill.

Medicare Cost Issues for STRS Retirees

We will continue to work with STRS staff, constituent groups, and key Members of the California Congressional delegation to explore possible solutions to the Medicare Part A cost problems for certain STRS retirees that were identified by the recent Health Benefits Task Force Report.

Key California Members of Congress on this Medicare issue include Rep. Bill Thomas (R-Bakersfield) who, in addition to being our champion of the Elk Hills issue, happens to be Chairman of the House Ways and Means Health Subcommittee which has primary jurisdiction over Medicare. Rep. Pete Stark (D-Fremont) is the ranking Democrat on the Health Subcommittee.

Reps. Stark and Thomas were instrumental in gaining the enactment in the Balanced Budget Act of 1997 (BBA) of the special provision permitting premium-free Medicare Part A coverage for a STRS retiree who had paid Medicare Part A out of his or her pocket on an unsubsidized basis for at least seven years. Rep. Bob Matsui (D-Sacramento) also is a senior Member of the House Ways and Means Committee (who has focused his attention on leading the charge against mandatory Social Security for State and local workers). Rep. Henry Waxman (D-Los Angeles) is the second ranking Democrat on the House Commerce Committee, which shares jurisdiction with Ways and Means over Medicare.

We will continue working with Reps. Thomas and Stark, as well as with Sen. Feinstein on the Senate side, to explore whether additional relief can be provided to STRS retirees who are having to continue to pay the $309 monthly premium for Medicare Part A out of their own pockets.

You will recall that the seven years of unsubsidized premium payment threshold was included in the BBA relief provision as a cipher for what a worker participating in Medicare would have paid as a Medicare payroll tax during his or her working life. This approach had enabled our Congressional proponents, Reps. Stark and Thomas, to argue that once the seven-year threshold of unsubsidized payments had been satisfied and the STRS retiree had paid the same "freight" as a worker participating in Medicare, it was only fair to make the Medicare Part A benefits available on the same premium-free basis. In the end, it was a hard-fought battle for our Congressional proponents to gain enactment of this relief provision. Accordingly, an effort to expand such relief is likely to face similar hurdles.

As with the mandatory Social Security issue, the impending Congressional recess will provide a very good opportunity for affected employer and employee constituencies to meet with their local Members of Congress to further raise the visibility of this Medicare Part A cost issue across the California Congressional delegation.

SEC Proposed Pay-to-Play Regulations

The comments are in on the proposed SEC rules that would sharply curtail campaign contributions by investment advisors to State and local government officials affiliated with public pension plans. We have provided STRS staff with copies of comments from key State and local government groups that are active on the issue, including the National Council of State Legislatures and the National Association of State Treasurers. With the exception of CalPERS and the Director of the Missouri Retirement System who submitted comments in his own name, it appears that individual public plans have largely refrained from becoming involved in the comment process.

While the formal deadline for the filing of comments with the SEC was November 1, we understand that the SEC staff continues to informally accept comments for filing. There have been no indications thus far as to any timetable for issuing final regulations. No hearing has been scheduled. There does not seem to be a process yet underway by the interested State and local groups active for engaging the SEC on the issue and following up on the written comments.

Proposed Pension Tax Law Changes

The pension reform provisions from the vetoed $792 billion tax package, including the pension portability provisions for State and local retirement plans, are adrift in a larger political sea. These provisions have been included in the "small business" tax relief provisions that are part of the Senate GOP minimum wage proposal adopted on November 9 by the Senate and the House GOP minimum wage proposal reported out of the House Ways and Means Committee the same day.

The minimum wage issue is a highly charged partisan issue. The Administration and most Congressional Democrats bitterly oppose the GOP alternative to raise the minimum wage over a three-year period instead of the two-year period under Democratic proposals, as well as opposing GOP plans to add billions of dollars in new tax breaks to soften the cost blow to business from the minimum wage increase. It is uncertain whether the House GOP minimum wage package can muster the votes needed for passage, since leaders are estimating that the support of 30 to 50 Democrats will be necessary for the GOP package to offset defections from Republicans strongly opposed to any minimum wage increase at all.

The positive here is that even though these pension reform provisions may be put over until next year, this pension package has taken on a life of its own and has strong bipartisan support. Accordingly, it seems likely that these pension tax law changes would be included as part of any significant tax legislation seriously considered by Congress next year.

John S. Stanton

November 12, 1999